

Nova Scotia Resources Limited

Nova Scotia Resources Limited

Nova Scotia Resources Limited

Nova Scotia Resources Limited

Nova Scotia Resources Limited



1982-83 Annual Report

1982-83 Annual Report

1982-83 Annual Report

1982-83 Annual Report

1982-83 Annual Report

PROFILE

- A Nova Scotia-incorporated company, owned by the Province, established in 1981 as part of the government's Energy Plan for the 1980's
- Mandated to acquire and manage, for the benefit of Nova Scotians, participating interests in petroleum, energy and mineral developments and related projects
- Initially capitalized at \$200,000, the Company now holds major petroleum assets and participates in the Venture offshore gas project
- 1982-83 before tax consolidated income, including extraordinary revenue, exceeded \$4 million
- Current cash flow provides administrative self-sufficiency

HIGHLIGHTS

- Acquired a 10% interest in 1.12 million acres of petroleum exploration rights in the Sable Island block of the Scotian Shelf containing the Venture gas field and other major hydrocarbon discoveries
- Sold a 1% interest in the Sable Island block for \$10.5 million, of which \$8.54 million was received by June 1, 1983
- The Company's net 9% interest in the Venture field could increase to 19.25% through exercise of the Province's right to receive one-half the federal 25% "Crown share" in gas fields on the Scotian Shelf.
- Acquired a 20% interest in 593,000 acres of petroleum exploration rights in the East Sable area neighbouring the Venture area, on which drilling will begin in fall 1983
- Formed Sable Gas Systems Limited, a Nova Scotia-based company jointly owned with TransCanada Pipelines, to design, own, construct and operate a natural gas transmission trunkline from the Sable Island area through Nova Scotia and New Brunswick



Report By The President

It is with a sense of considerable accomplishment that this first Annual Report is made to our shareholder and to the public of Nova Scotia.

In its initial two years, Nova Scotia Resources Limited has moved aggressively to become an active participant in the Canadian petroleum industry, with significant assets and cash flow. At this point we should reflect on this progress and emphasize our enthusiasm for the role we expect to play in the province's future.

Common to the economic success of government-controlled resource development companies in Canada and elsewhere are three elements: selectivity in use, partnership with the private sector under private sector rules, and investment based on sound business principles.

Our 1981 entry upon the energy scene coincided with the exciting Sable area gas finds and a rapid acceleration of petroleum activities in Nova Scotia. The timing was right. So was the Company's mandate to ensure the active presence of Nova

Scotians in development of their own resources, through transfer of technology, direct and indirect employment, a share in the investment rewards, and the creation of resource-related industries that can survive long-term.

We think NSRL's initial program has placed it firmly on the road to fulfilling this mandate.

Operations 1981-83

Our first activity, a 19.5% participation in the Scotia Coal Synfuels Project, has achieved encouraging results. This five-company consortium was formed to determine if major quantities of synthetic fuels could technically and economically be produced from the output of two Nova Scotia coal mines planned for the late 1980's. The progress of the project is outlined in this Annual Report.

In 1981-82 the Company represented the Province in a task force with Mobil Oil and Petro-Canada to examine the possibilities for an east coast petrochemical industry based on Scotian Shelf gas feedstocks. Its report confirms the attractiveness of the province as a world-scale petrochemical site, and identifies potential products for world markets when justified by improved price conditions.

To prepare for offshore exploration, we established a taxable subsidiary, Nova Scotia Resources (Ventures) Limited, one of the first Crown corporations in Canada to obtain a 100% Canadian Ownership Rating. Since February 1982 it has been eligible to receive the maximum 80% Petroleum Incentive Payment grants against its offshore exploration expenditures.

In spring 1982 several key transactions occurred, setting our future course:

- Under the Canada/Nova Scotia Agreement on Offshore Resources Management and Revenue Sharing the Province gained the right to half the 25% "Crown share" working interest in commercial gas fields, plus the right to acquire up to 50% ownership of any oil or gas truckline from the offshore and extensions through Nova



*Peter A. Outhit, President and
Chief Executive Officer*



Scotia. It is expected these rights, when exercised, would be vested in the Company.

- The Company acquired from Dome Petroleum and Inco Energy Resources, at no cost, a 20% interest in 593,000 acres of highly prospective petroleum exploration rights in the East Sable area of the Scotian Shelf on which drilling will begin this October.
- Negotiations with British Columbia Resources Investment Corporation were concluded by the purchase of its full 10% working interest in 1.12 million acres of petroleum rights covering the Sable Island area for \$52 million. This investment placed us at the centre of the hottest frontier discovery area in North America and we became a direct participant in Mobil's Venture field gas project. Independent appraisals of this property valued it considerably higher than the purchase cost, and we believe subsequent events have further increased the value by a significant amount.

In September 1982, the Company sold to a private sector Nova Scotia-based company, East Coast Energy Limited, one-tenth of its 10% Sable area holdings for \$10.5 million, of which \$8.54 million had been received as of 1 June 1983.

In 1982, the Province's coal mining company, Novaco Limited, became a subsidiary of NSRL. Novaco operates a near-surface mine at Point Aconi, Cape Breton, and the Rodney surface mine at Springhill. Both operations are nearing completion in 1983 and should result in retained earnings of \$700,000. Details are contained in this Annual Report and Novaco's financial statements are consolidated with our own.

One further important event, though subsequent to the fiscal year-end, should be recorded. In May 1983, the Company and TransCanada Pipelines announced the formation of Sable Gas Systems Limited, a Nova Scotia-based company, which will apply to the National Energy Board later this year for permission to own, construct and operate a gas trunkline from the Sable Island area to Nova

Scotia, extending through the province and New Brunswick to an export point on the Maine border, in time to transmit Venture gas in late 1987. With training by TCPL, Sable Gas Systems will be staffed and managed by Nova Scotians and Maritime residents. It will maximize contracting of local services, supplies and labour throughout its activities.

Financial

May I report on the nature of our financing, present and planned.

The Company was capitalized in 1981 by two provincial grants totalling \$525,000. As a result of our 1982 Sable area transactions, we have been able to fully repay the 1982 initial grant of \$200,000 and, as of June 1, 1983, have cash on hand exceeding \$8.5 million.

In 1982, to finance the \$52 million purchase of our 10% Sable area interest, the Company obtained a long-term multicurrency bank loan, initially drawn down in Swiss francs. Due to favourable Swiss interest rates – averaging 4.25% to March 31, 1983 – and a strengthening of the Canadian dollar, I can report that the total borrowing cost to that date is three-quarters of 1% of the loan principal.

Subsequently the Company negotiated a multicurrency \$50 million bank credit to fund its Scotian Shelf exploration. This borrowing, principally secured by assignment of NSR(V)L's 80% PIP grants, demonstrates our ability to finance our activities without the requirement of a government loan guarantee.

We plan to fund most of our participation in the capital intensive Venture development through a syndicated bank project financing, secured by Venture gas sales revenue and with minimal lender recourse to the Company or its shareholder. The equity portion of our Venture development costs can be funded in a variety of ways. The Company will consider a public equity or debt issue in Canada for this purpose.



The Coming Year

In 1983-84 our efforts will concentrate on ensuring the timely progress of the Venture offshore gas field project, whose development plan is planned to be filed by January 14, 1984. Coinciding with our involvement in the intensive Venture marketing, regulatory, financing and technical activities will be the pipeline planning and preparation of the certification application to the National Energy Board by Sable Gas Systems Limited, in which we will also participate.

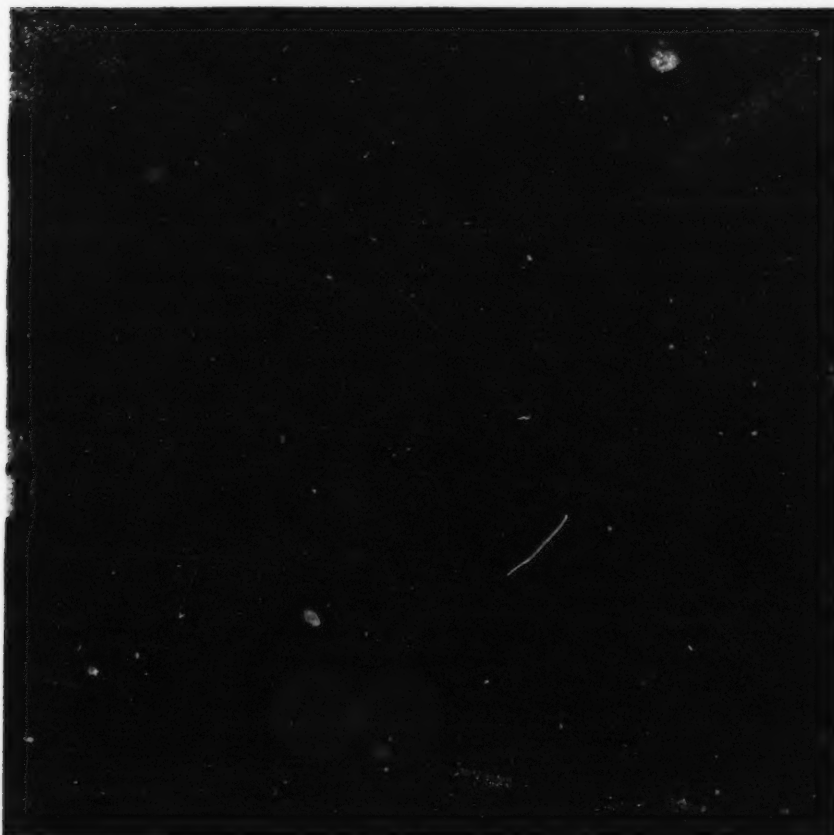
Beyond these commitments, we are determined to diversify the Company's investments. For this purpose a number of potential projects related to petroleum and mineral development are under

consideration.

Expansion of our Board of Directors, already commenced, will continue so that we will have access to a breadth of private sector business expertise.

Company staffing is proceeding selectively. We must ensure the ability not only to manage our assets professionally but to pursue our mandate in new areas. If the qualities and enthusiasm of our existing corporate team are any indication, we will achieve these goals rapidly.

The times are exciting. We have made a good beginning.



Reception area mural created by Nova Scotia-resident artist Anneke Betlam depicts NSRL energy mandate.

Born and educated in the Netherlands, Mrs. Betlam's works have been exhibited across Canada.

Key elements of our mandate (beginning top centre, clockwise)

- * co-operative partnerships with the private sector*
- * coal production and liquifaction*
- * oil and gas exploration and development*
- * participation in natural gas transmission*
- * gas and gas liquids processing and petro-chemicals*
- * alternate energy development (pictured is Fundy tidal power pilot project)*

Operations 1981-83

OIL AND GAS

The extensive oil and gas activities of the Company are conducted through its wholly-owned taxable subsidiary, Nova Scotia Resources (Ventures) Limited, which receives federal Petroleum Incentives Payment grants equal to 80% of its exploration expenditures on Canada lands. In 1982-83 all the Company's exploration was conducted on the Scotian Shelf offshore Nova Scotia and qualified for such grants.

Sable Island Block

In Spring 1982 the Company acquired important interests at the centre of recent major gas discoveries near Sable Island. On April 14, agreement was reached to purchase the 10% interest of British Columbia Resources Investment Corporation in 1.12 million acres operated by Mobil Oil Canada, on which several significant hydrocarbon discoveries had been made. These indicated productive zones ranging from 11,000 to 19,000 feet, with major gas potential in deep overpressured sandstone reservoirs of late Jurassic to early Cretaceous Age below 15,000 feet, and included the following discovery wells:

- Thebaud P-84, drilled in 1972 to 4115 meters which produced gas from 5 zones with net pay zones of 93.9 meters, at rates ranging up to 21 million cubic feet per day (mmcf/d).

- Mobil/Tetco/Pex/Thebaud I-94, drilled in 1978 to offset P-84, to a depth of 3962 meters, which penetrated 21.6 meters of net pay from deep overpressured zones.
- The Venture discovery well, Mobil/Texaco/Pex/Venture D-23, drilled in 1979 to a depth of 4945 meters, which flowed gas from 12 zones at rates up to 22.2 mmcf/d.
- Venture B-13, an appraisal well 3.2 km east of D-23, drilled in 1980-81 to 5368 meters, high tested gas flows ranging from 13.7 to 18.8 mmcf/d from multiple zones.
- Venture B-43, a second appraisal well, 3 km west of D-23, drilled in 1981-82, which flowed gas from 10 zones at rates up to 15.8 mmcf/d.

Since acquiring its interest the Company, as a member of the Sable area joint venture, has participated in two discovery wells drilled into new structures near the eastern end of Sable Island.



Supply boat nears Zapata Scotian jack-up rig in the Venture gas field

The South Venture 0-59 well was drilled 8 km southwest of Venture D-23 to a depth of 6175 meters and was the deepest well drilled to date in the Canadian offshore. It flowed natural gas from 7 zones at rates up to 18.2 mmcf/d. The Olympia A-12 tested gas from 5 zones at rates up to 17.5 mmcf/d. Each of these wells indicate substantial gas in new structures appearing to be separate from Venture. Their commercial potential will depend upon future appraisal drilling.

The rate and magnitude of the gas discoveries has established a potential for commercial gas reserves in the Sable Island area believed to exceed 12 trillion cubic feet. Wells drilled into the Thebaud, Venture, South Venture and Olympia structures to date have identified hydrocarbon resources in excess of 4 trillion cubic feet. Among the plus factors indicated by the discovery wells are:

- a deep geological mix of source and reservoir rocks, with a variety of hydrocarbon trapping mechanisms and therefore numerous drilling targets
- higher than normal porosities and indicated high recovery factors
- absence of impurities and presence of large quantities of valuable natural gas liquids.

Currently the Company is participating in 3 additional wells in the area: the B-52 Venture appraisal well, situated halfway between D-23 and the South Venture 0-59 discovery; Arcadia J-16, which is being drilled into a separate structure 7 km north of the Olympia A-12 discovery; and Bluenose 2G-47, drilled into a new structure 15 km northeast of Venture B-13. These wells will reach their target depths in late spring 1983 with test results expected during the summer.

In 1983-84, in addition to any further Venture appraisal wells, the Company will participate in drilling an exploration well in the eastern portion of the Sable area, and an 800 km marine seismic program.

East Sable Block

In March 1982 the Company acquired from Dome Petroleum Limited and Inco Energy Resources Limited respectively a 20% working interest in a 593,000 acre block of highly prospective exploration rights northeast of Sable Island, neighbouring the Venture gas discoveries. The acquisition was completed at no purchase cost and the Company bears its share of exploration expenditures.

In 1981 and 1982 extensive seismic programs were conducted over the East Sable Block which identified encouraging drilling targets. It is believed the deep gas discoveries in the Sable Island area extend northeastward through East Sable. The first exploration well on the block (Louisbourg J-47) will be commenced in October 1983, under the operatorship of Home Oil Company pursuant to a farm-in arrangement with Dome Petroleum. A second exploration well is planned for 1984.



Drilling operations on jack-up rig



The Venture Project

Because of the importance of the Venture discoveries and their proximity to markets in the Maritime provinces and the northeastern United States, the governments of Canada and Nova Scotia have required Venture field delineation to be completed in 1983 and a development plan filed by 14 January 1984. The Venture structure alone is estimated to contain more than 2.5 trillion cubic feet of gas, close to the threshold level required for commercial development. Results of the B-52 appraisal well and any additional wells on the structure are expected to allow the Venture interest owners to confirm commercial-level gas volumes before the end of 1983.

In addition, the volume of valuable natural gas liquids – ethane, propane, butanes and pentanes plus – that could be extracted at a gas production rate of 400 mmcf/d ranges from 25,000 to 40,000 barrels per day, depending on the level of liquids extraction agreed upon.

Venture first production is projected for late 1987. The gas which is surplus to Maritime provinces' requirements would be sold to waiting markets in the northeastern United States and transported by pipeline from the Scotian Shelf through Nova Scotia and New Brunswick to the Maine border. Estimated cost of the Venture project (including offshore installations, onshore gas processing facilities and the transmission pipeline) is approximately \$4 billion (1982 dollars).





The Venture interest owners, under the operatorship of Mobil Oil Canada, have accordingly commenced pre-development activities for the conceptual design and planning of field facilities and the preparing of an application to the National Energy Board for export of surplus gas to be sold to United States purchasers. A detailed Environmental Impact Statement has been prepared and will undergo broad public review in Nova Scotia later in 1983. Gas marketing activities are proceeding with a view to identifying the Canadian and United States markets and completing negotiation and signature of gas sales contracts with purchasers in the United States by fall 1983.

Should the Province exercise its right under the Canada/Nova Scotia Agreement to receive one-half of the federal 25% "Crown share" interest in the Venture field, which is expected to occur in 1984, the Company's working interest could increase from 9% to 19.25%.

It is the Company's intention to consider participating in every link of the chain of production from the Sable Island area to market. This includes investment in pipeline transportation, the gas processing and liquids extraction facilities and, should economic conditions warrant, petrochemicals manufacturing based on Scotian Shelf feedstock.

In September 1982 the Company sold to East Coast Energy Limited, a private sector Nova Scotia company, one-tenth of its initial 10% interest in the Sable Island block for \$10.5 million, reducing its holding to 9%.

The ability of the Company to obtain prompt payment of its 80% PIP grants has enabled it to reduce to less than \$5 million its net exploration costs of participation in two complete Sable area wells and portions of four other wells, as well as two seismic programs, during the year 1982-83.

In view of these benefits and highly encouraging well results, the Company intends to negotiate further exploration ventures on the Scotian Shelf and will also consider participation in petroleum exploration on the Nova Scotia mainland.

COAL

Coal mining operations are consolidated under the Company's subsidiary Novaco Limited, a provincial Crown corporation established in 1970.

Novaco's mandate includes the operation of near-surface coal deposits in the province, the development of technical and environmental know-how to ensure such mining is conducted to the highest safety and environmental standards, and the delivery to the Nova Scotia Power Corporation of supplemental coal supplies for electrical generation.

In addition Novaco administers, through the Nova Scotia Department of Mines and Energy, a pre-retirement leave plan designed to provide income for miners with lengthy employment in Nova Scotia mines other than those operated by Cape Breton Development Corporation. It also has financial and management responsibility for the operation of the Thorburn Mining Company coal reclamation project at Stellarton, Pictou County.

Currently Novaco is operating two near-surface mines, one at Point Aconi, Cape Breton County, and the Rodney Mine at Springhill, Cumberland County.

The Point Aconi mine, which commenced operation in July 1980 and has produced 581,420 short tons of coal to March 31, 1983, is operated under contract by Nova Construction Company, Antigonish, through its subsidiary Pioneer Coal Company. Overburden removal is accomplished by a modular Bucyrus Erie 380 W walking dragline equipped with a 15 cubic yard bucket. Coal production during fiscal 1982-83 was 246,055 short tons, all sales being to the NSPC Lingan power generating station. The mine employs an average of 27 workers and provides an additional 8 positions in the trucking of coal.

The Rodney mine is operated under contract by Telcon Construction Limited, Halifax. The mine was designed as a small open pit to provide geological and mining data to assist in evaluating underground mining possibilities and is operated by the truck-shovel method. 1982-83 coal production



John C. Smith, President and Chief Executive Officer, Novaco Limited

was 83,014 short tons, with sales of 52,690 short tons to markets at CFB Gagetown, New Brunswick, Canada Cement Lafarge, and NSPC thermal generating stations at Maccan and Trenton. Average employment at the site is 17 persons.

A conceptual underground mining feasibility study was completed by consultants and formed the basis of soliciting mining proposals from the Canadian private sector. Three companies are conducting studies before deciding to submit a firm proposal. Novaco is co-operating in these efforts so as to expedite an early decision in the viability of an underground mining operation at Springhill.

Full reclamation of mining sites and restoration of lands to productive end use is an absolute commitment of Novaco. Restoration work includes levelling by bulldozers and replacing all topsoil to the original contour. This is followed by reclamation involving reseeding with appropriate species of grasses and re-forestation, with a view to improving the environmental quality of the original lands. Application of lime, fertilizers and seed is determined in consultation with the Nova



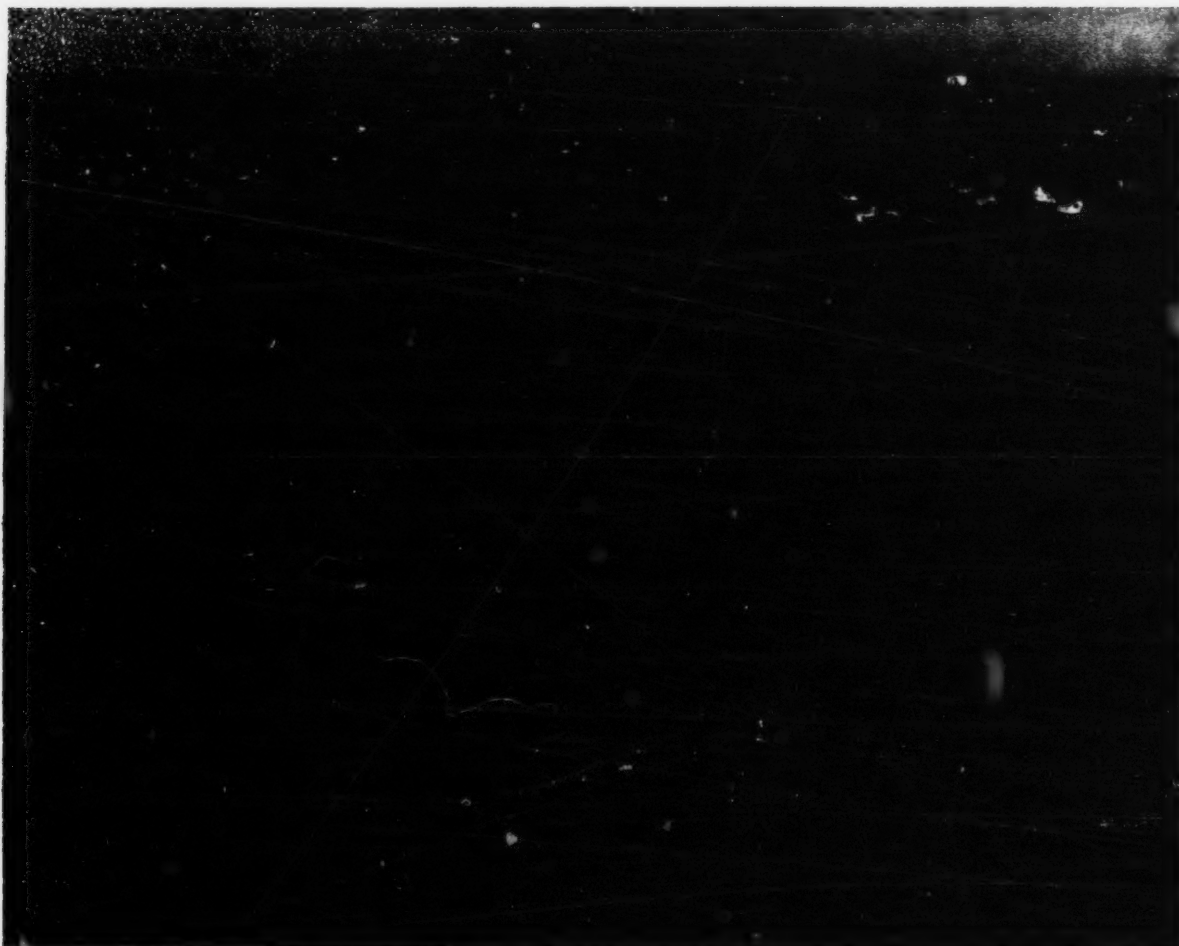
Scotia Agricultural College, Nova Scotia Department of Lands and Forests, and other experts.

In 1982-83 seventy acres of mined land at Point Aconi were reclaimed, and additional levelled acreage is now being prepared for seeding.

Both the Point Aconi and Rodney mines will be largely depleted in 1983. Novaco expects to generate from both projects an excess of revenue over expenditure of approximately \$700,000.

Despite the current softness of coal markets in Canada, and the rapid escalation of mining costs over the past two years, it is important for many reasons to identify and develop, if economic, near-surface coal deposits in Nova Scotia. Coal markets and prices are expected to improve in 1984. Accordingly Novaco continues its efforts to obtain approval for a new mining site in Cape Breton, and has identified several deposits in which preliminary engineering indicates potential for viable mining operations.

Aerial view of Novaco's Rodney Mine, Springhill



SYNFUELS

The Company holds a 19.5% interest in the \$2.5 million Scotia Coal Synfuels consortium to examine the technical and economic feasibility of liquifying Nova Scotia coal. Other consortium members are Cape Breton Development Corporation, Petro-Canada, Gulf Canada, Nova, an Alberta Corporation and Alastair Gillespie Associates in Toronto. To date 46% of the cost of the consortium test work has been borne by the Federal/Provincial Oil Substitution Fund. The results of technical evaluation work are most encouraging.

Since the early 1970's, extensive work has been carried out in North America to develop new processes to manufacture liquid hydrocarbons from indigenous coal. Processes tested have resulted in a wide variety of capital and operating costs, quality, type and amount of liquid yields per tonne of a given coal. The Scotia Coal Synfuels consortium has selected, after 18 months work, a direct liquification process as most suitable for the quality of coal expected from the Lingan/Phelan and Donkin/Morien mines (expected to begin

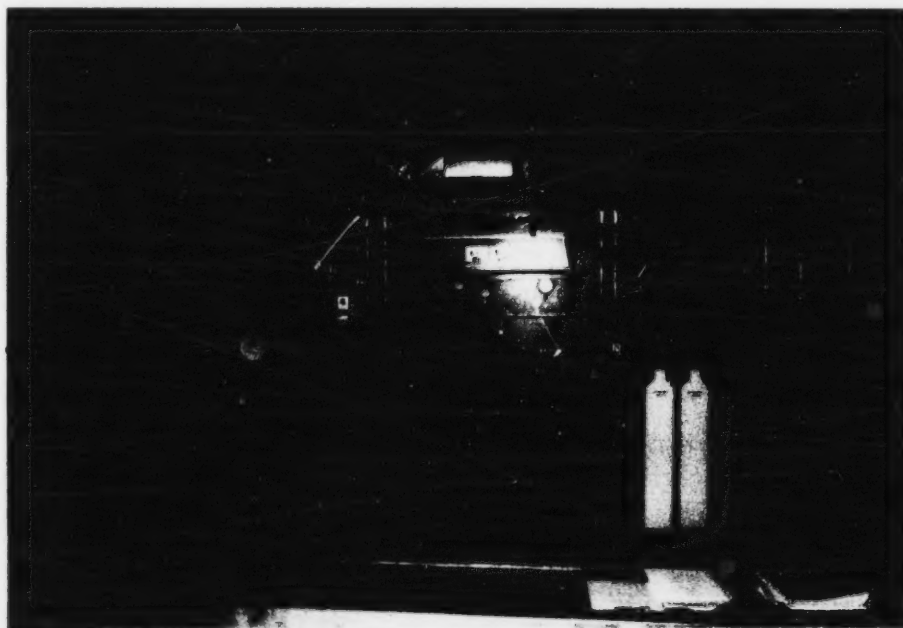
production in the late 1980's), and a product range desirable for the Nova Scotia and Maritimes' markets.

Working with the process developer, the consortium conducted original laboratory testing – partly in Nova Scotia – which improved the process and increased the viability of Nova Scotia coal liquifaction. Liquids manufactured using Nova Scotia coal have been judged to have excellent market possibilities as transportation fuels.

Further process modifications will have the potential to markedly improve the liquid yields per tonne of coal. The consortium plans to conduct tests to verify these improvements as permitted by additional financing.

Indications to date are that processing 7,000 tonnes per day of coal could result in a yield of 25,000 barrels per day, involving a capital investment of \$1.5 billion (1982).

*Nova Scotia Research
Foundation
Corporation's
experimental coal
liquifaction facility*



AN INSIDE LOOK...

Nova Scotia Resources Limited's staff consisted initially of the President and a secretary/office manager (plus the inevitable coffee pot!). As the company's activities have grown, it has selectively increased staff. As of 1 July 1983 employees in addition to the President include A. Lee Horne, Director of Project Development; John D. French, Director of Regulatory and Governmental Affairs; Jennifer K. Frame, Supervisor of Accounting and Administration; and Mary A. Conrod, executive secretary/receptionist.



Secretary/Receptionist Mary Conrod



Management team shown in NSRL boardroom. From left: Jennifer Frame, Lee Horne, Peter Outhit and John French

In our initial phase we have relied extensively on outside technical consultancies, and the assistance of government personnel, which has been most welcome. However, our workload is rapidly increasing and as our requirements increase we will need additional technical/supervisory staff. In anticipation of such growth our offices were relocated in April 1982 to new premises in an excellent location in downtown Halifax. The offices are designed to allow for progressive staff expansion at minimal overhead cost.

Our staffing policy emphasizes the need to engage qualified Nova Scotia natives or residents and to create an aggressive managerial team able to absorb technical know-how, manage our assets professionally, and rapidly develop our own expertise.



Entrance to NSRL offices at 1657 Bedford Row, near the Halifax waterfront



NOVA SCOTIA RESOURCES LIMITED

**CONSOLIDATED
FINANCIAL STATEMENTS**

March 31, 1983

CONTENTS

	Page
Consolidated Balance Sheet	II
Consolidated Statement of Income & Retained Earnings	III
Consolidated Statement of Changes in Financial Position	IV
Consolidated Statement of Near Surface Coal Resource Operations	V
Notes to Consolidated Financial Statements	VI-XV

AUDITORS' REPORT

To the Shareholders of
Nova Scotia Resources Limited

We have examined the consolidated balance sheet of Nova Scotia Resources Limited as at March 31, 1983 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the company as at March 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Halifax, Nova Scotia
June 22, 1983

Doane Raymond
Chartered Accountants



NOVA SCOTIA RESOURCES LIMITED
CONSOLIDATED BALANCE SHEET
MARCH 31, 1983

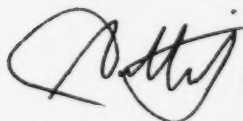
ASSETS	1983	1982
Current		
Cash and term deposits	\$ 8,054,086	\$ 70,995
Receivables (Note 2)	7,521,829	1,003
Inventory, at the lower of cost and net realizable value	1,403,880	
Prepaid expenses (Note 3)	<u>109,988</u>	
	17,089,783	71,998
Investment, at cost (Note 4)	60	60
Petroleum and natural gas properties (Note 5)	52,479,844	
Buildings, equipment and leasehold improvements (Note 6)	140,495	119,220
Funds (Note 7)	543,783	
Other assets (Note 8)	<u>50,666</u>	1,484
	<u>\$ 70,304,631</u>	<u>\$ 192,762</u>

LIABILITIES

Current		
Bank indebtedness (Note 9)	\$ 9,021,670	\$
Payables and accruals (Note 10)	2,487,351	135,760
Deferred grants (Note 11)	382,377	
Due to Province of Nova Scotia (Note 12)	<u>139,443</u>	
	12,030,841	135,760
Funds (Note 7)	441,819	
Long term (Note 13)	<u>52,409,254</u>	
	64,881,914	<u>135,760</u>
Unamortized foreign exchange gain (Note 14)	<u>1,341,741</u>	
Deferred income taxes	<u>1,910,305</u>	

SHAREHOLDERS' EQUITY

Capital stock (Note 15)	3	3
Retained earnings	<u>2,170,668</u>	56,999
	2,170,671	<u>57,002</u>
ON BEHALF OF THE BOARD	<u>\$ 70,304,631</u>	<u>\$ 192,762</u>

 Director

 Director



NOVA SCOTIA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED MARCH 31, 1983

(With comparative figures for the thirteen months ended March 31, 1982)

	1983	1982
Revenue		
Gain on sale of petroleum property	\$ 3,300,000	\$
Grant - Province of Nova Scotia		525,000
Income from near surface coal resource operations	631,457	
Interest income	327,213	
Management fee	25,000	
Rental income	50,459	
	<u>4,334,129</u>	<u>525,000</u>
Expenses		
Advertising and publicity	5,730	2,940
Conferences and meetings	48,275	23,296
Consulting and other professional fees	89,318	61,693
Depreciation	20,991	5,348
Directors fees and expenses	1,557	
Interest and bank charges	1,603	2,838
Miscellaneous	5,233	4,465
Office operating expenses	160,418	52,543
Research and development expenses	118,000	227,522
Salaries and employment expenses	163,018	87,356
	<u>614,143</u>	<u>468,001</u>
Operating income	3,719,986	56,999
Foreign exchange gain (Note 14)	224,147	
Gain on acquisition of shares in Novaco Limited	79,841	
Income before income taxes	4,023,974	56,999
Income taxes - deferred	1,910,305	
Net income	2,113,669	56,999
Retained earnings, beginning of year	56,999	
Retained earnings, end of year	<u>\$ 2,170,668</u>	<u>\$ 56,999</u>



NOVA SCOTIA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED MARCH 31, 1983

(With comparative figures for the thirteen months ended March 31, 1982)

	1983	1982
Working capital derived from		
Operations		
Net income	\$ 2,113,669	\$ 56,999
Depreciation and amortization	125,488	5,348
Deferred income taxes	1,910,305	
Gain on sale of petroleum property	(3,300,000)	
Foreign exchange gain	(224,147)	
	<u>625,315</u>	<u>62,347</u>
Increase in unamortized foreign exchange gain	1,565,888	
Proceeds from long term debt	52,409,254	
Increase in fund equity	47,923	
Proceeds from sale of equipment	600	
Issue of common shares		3
Proceeds from sale of petroleum properties	8,500,000	
Decrease in other assets	41,329	
	<u>63,190,309</u>	<u>62,350</u>
Working capital applied to		
Purchase of		
Petroleum properties	57,679,844	
Equipment and leasehold improvements	41,169	124,568
Investment		60
Other assets	93	1,484
Increase in fund assets	58,842	
Decrease in working capital resulting from acquisition of subsidiary (Note 16)	287,657	
	<u>58,067,605</u>	<u>126,112</u>
Increase (decrease) in working capital	5,122,704	(63,762)
Working capital (deficiency), beginning of year	(63,762)	
Working capital (deficiency), end of year	<u>\$ 5,058,942</u>	<u>\$ (63,762)</u>



NOVA SCOTIA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF NEAR SURFACE
COAL RESOURCE OPERATIONS
YEAR ENDED MARCH 31, 1983

	1983
Sales	
Coal sales	<u>\$10,933,211</u>
Cost of sales	
Inventory, beginning of year	306,037
Production costs	9,697,008
Transportation	1,334,152
Sampling and weighing	180,184
Depreciation	6,900
Other	82,513
Inventory, end of year	<u>(1,403,880)</u>
	<u>10,202,914</u>
Gross profit	<u>730,297</u>
Expenses	
Administrative salaries and benefits	165,465
Amortization of performance bonds	32,957
Land reclamation costs	121,441
Project development costs	41,360
Royalties	73,949
Depreciation	3,600
Interest	121,226
Other	83,969
	<u>643,967</u>
	<u>86,330</u>
Other revenue	
Grant - Province of Nova Scotia	230,693
Recovery of overburden costs	300,907
Interest income	13,527
	<u>545,127</u>
Income from near surface coal resource operations	<u><u>\$ 631,457</u></u>



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

1. Accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the following subsidiary companies:

Nova Scotia Resources Exploration Limited	100% owned
Nova Scotia Resources (Ventures) Limited	100% owned
Novaco Limited	100% owned

Pursuant to an Order in Council of the Province of Nova Scotia dated December 22, 1981, the Department of Mines and Energy was directed to sell and transfer for the consideration of \$1, all the shares of Novaco Limited, a Crown Corporation, to the Company. The consolidation, considered effective April 1, 1982, is accounted for by the purchase method and includes the operating results of Novaco Limited for the year ended March 31, 1983.

The transfer of shares resulted in the Company acquiring assets with an assigned value of \$2,559,735 and assuming liabilities with an assigned value of \$2,559,734.

Capitalized costs are to be amortized using the unit of production method based on estimated proven recoverable reserves. If a prospect is abandoned or proven to be not commercially viable, all capitalized costs relating to that prospect will be expensed. No amortization has been charged for the current year.

Interest charges on the debt incurred for acquisition, exploration and development of the properties has been capitalized as a cost of the properties and will be amortized on the same basis as other capitalized costs.

(c) Joint venture accounting

The Company's exploration and production activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas properties

The Company has adopted the successful efforts method of accounting for oil and gas operations. Under this method all costs incurred in acquiring, exploring for and developing oil, gas and related reserves are capitalized on a prospect by prospect basis. Petroleum incentive program grants received are applied against the capitalized costs of the prospects.



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

(d) Depreciation

Depreciation on buildings, furniture and equipment and vehicles, which are used for the Near Surface Coal Resource Operations are depreciated on a straight-line basis over the following periods:

Buildings	5 years
Furniture and equipment	5 years
Vehicles	3 years

Depreciation on other furniture and equipment is recorded using the diminishing balance method at a rate of 20%. Depreciation of leasehold improvements is recorded using the straight-line method over the term of the lease of eight years.

Fixed assets purchased or constructed for the Coal Recovery Operation were depreciated on a straight-line basis over the period October 1, 1975 to September 30, 1979 which was the expected life of the coal waste dumps.

All costs relating to the original acquiring, defining and preparation for production of a site are expensed in the year in which they are incurred.

(e) Amortization

During 1982, Novaco Limited undertook a new box cut at a cost of \$200,000. The cost of this new box cut is being amortized over 36 months to May, 1984.

(f) Deferred grants

Grants received for specified purposes are deferred in the accounts and taken into income as the related expenditures are incurred.

(g) Foreign currency transactions

Accounts in foreign currencies have been converted to Canadian currency on the following basis:

- i) current assets and current liabilities at the exchange rate on March 31, 1983
- ii) long term debt at the exchange rate on March 31, 1983 and
- iii) petroleum and natural gas properties, other assets and liabilities, revenues and expenses at the exchange rate in effect on the date of the transaction.



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

(h) Income taxes

The Company's subsidiary, Nova Scotia Resources (Ventures) Limited, has received an advance income tax ruling from Revenue Canada which has confirmed that it is subject to tax under Part 1 of the Income Tax Act of Canada.

The Company follows the tax allocation method of accounting for income taxes. Under this method deferred income taxes are recorded to the extent that income taxes otherwise payable are deferred by claiming capital cost allowance and exploration and development costs for income tax purposes in excess of the depletion, depreciation and amortization provisions in the accounts.

	1983	1982
2. Receivables		
Trade	\$ 1,119,627	\$
Accrued interest	21,794	
Grants under the Petroleum Incentives Program	4,379,154	
East Coast Energy Ltd.	2,000,000	
Travel advances	1,250	1,000
Subscriptions	4	3
	<u>\$ 7,521,829</u>	<u>\$ 1,003</u>

3. Prepaid expenses	1983
Vehicle lease deposits	\$ 540
Current portion of new box cut	66,666
Current portion of performance bonds	27,331
Insurance and rent	8,667
Property taxes	6,784
	<u>\$ 109,988</u>

4. Investment

The investment represents a 50% interest in Scotian Shelf Developments Limited.



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

5. Petroleum and natural gas properties

	Acquisition of Interest	Exploration Costs	Total
East and West Sable Block	\$ 48,782,964	\$ 3,650,983	\$ 52,433,947
East Sable Block	<u>1</u>	<u>45,896</u>	<u>45,897</u>
	<u>\$ 48,782,965</u>	<u>\$ 3,696,879</u>	<u>\$ 52,479,844</u>

Acquisition and exploration costs of the East and West Sable Block include \$2,313,667 interest expense and \$77,379 of legal and consulting fees which have been capitalized as a cost of acquiring and developing the property.

6. Buildings, equipment and leasehold improvements

	1983		1982	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and equipment	\$ 57,263	\$ 27,215	\$ 30,048	\$ 21,393
Leasehold improvements	105,033	13,130	91,903	97,827
Coal recovery assets	303,361	303,361		
Buildings	17,500	3,300	14,200	
Vehicles	<u>10,044</u>	<u>5,700</u>	<u>4,344</u>	
	<u>\$ 493,201</u>	<u>\$ 352,706</u>	<u>\$ 140,495</u>	<u>\$ 119,220</u>



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

7. Funds

Reclamation fund

The Articles of Association of Novaco Limited require that a reclamation fund be established, separate from the operating accounts of the company, for the reclamation of lands disturbed by mining operations

A provision of fifty cents per ton mined has been made for reclamation of Pt. Aconi lands. No provision has been made for Springhill. Should development of an underground mine in Springhill not proceed, the Company will be responsible for land reclamation estimated at \$105,000.

Pre-Retirement Leave and Pension Fund Administration

Novaco Limited acts as the administrator of certain pre-retirement leave and pension fund programs as an agent for the Province of Nova Scotia. The Company has assumed no responsibility for decisions affecting the amendment, alteration or continuation of any of the programs.

Novaco Limited also acts as the administrator and the trustee of a pension fund established by Thorburn Mining Limited for employees of Acadian Coal Company Limited. Under the terms of an agreement dated May 31, 1968, the Province of Nova Scotia assumed all pension liabilities for these employees of Acadia Coal Company Limited, except for the pensions at age sixty-five of employees who were under sixty years of age on June 8, 1968. In order to provide for the pensions of these employees, Thorburn Mining Limited paid \$89,750 into a pension fund.

As at March 31, 1983, the position of these funds are as follows:

Fund assets	
Reclamation	\$ 191,445
Pension fund	\$ 352,338
	<u>\$ 543,783</u>
Fund liability and equity	
Reclamation payable	\$ 191,445
Pension fund equity	250,374
	<u>\$ 441,819</u>

Pension fund assets exceed pension fund equity as a result of pensions having been paid from funds provided by the Province of Nova Scotia rather than from pension fund assets.



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

8. Other assets	1983	1982
Non-current portion of box cut	\$ 11,111	\$
Non-current portion of performance bonds	38,719	
Sundry	836	1,484
	<u>\$ 50,666</u>	<u>\$ 1,484</u>

9. Bank indebtedness

The Company has executed a guarantee and postponement of claim for the full liability of its subsidiary, Nova Scotia Resources (Ventures) Limited, to the Canadian Imperial Bank of Commerce. The bank loan of Novaco Limited is guaranteed by the Province of Nova Scotia.

10. Payables and accruals	1983	1982
Trade	\$ 2,243,607	\$ 135,700
Accrued interest	43,743	
Subscriptions	1	60
Repayment of grant to Province of Nova Scotia	200,000	
	<u>\$ 2,487,351</u>	<u>\$ 135,760</u>

The grant of \$200,000 received from the Province of Nova Scotia was not required for operations in the year and a decision was made to return the amount to the Province. This grant has been subsequently paid in June, 1983.



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

11. Deferred grants

The Company, through its subsidiary Novaco Limited, has received grants from the Province of Nova Scotia for the purpose of defraying expenses relating the acquisition of surface rights for proposed projects. As of March 31, 1983, Novaco Limited has received \$454,000 in grants and incurred \$71,623 in costs relating to these acquisitions. The remaining \$382,377 of the grants has been deferred and will be taken into income when related expenditures are incurred.

12. Due to Province of Nova Scotia

The Company, through its subsidiary Novaco Limited, has received payments from the Province of Nova Scotia in order to establish coal recovery operations. Any income or loss generated by this project accrues to the Province. Therefore, the amount due to the Province at the end of the year is a derivative of funds received from the Province less accumulated losses to date. Coal recovery operations for the year resulted in a net loss of \$939,591.

13. Long term debt

On June 4, 1982, the Company borrowed 84,925,690 in Swiss Francs (Canadian equivalent of \$52 million) which was loaned to its subsidiary, Nova Scotia Resources (Ventures) Limited, for the purpose of purchasing a 10% working interest in the petroleum and natural gas licenses in the West Sable Block and East Sable Block of the Scotian Shelf. The

borrowing of principal and interest has been guaranteed by the Minister of Finance on behalf of the Province of Nova Scotia.

The Company has borrowed the funds on a multi-currency option basis from the Bank of Nova Scotia for a five year term maturing May 31, 1987 and bears interest at a rate of 3 $\frac{1}{4}$ %, adjusted quarterly. The interest incurred by the Company is being accrued and capitalized as part of the liability. The balance of the debt at March 31, 1983 has been adjusted to reflect the gain resulting from changes in the Swiss Franc exchange rate. As at March 31, 1983 the Company owed 88,231,068 in Swiss Francs representing principal and accrued interest to that date. The Swiss Franc loan has been converted to its Canadian dollar equivalent using the exchange rate as at March 31, 1983.

14. Foreign exchange gain

The Company has recognized a \$1,610,089 foreign exchange gain on the long term debt described in Note 13. The gain is to be amortized on a straight line basis over the five year term of the loan. In the current year, the Company has recorded \$268,348 as a foreign exchange gain and has recorded the gain as a reduction of the capitalized interest charges as outlined in Note 5. In addition, the Company has realized \$224,147 in foreign exchange gains on bank loans.



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

15. Capital stock	1983	1982
Authorized		
40,000 common shares without par value		
Issued and outstanding		
3 common shares	<u>\$ 3</u>	<u>\$ 3</u>
16. Decrease in working capital		
As outlined in Note 1(a), effective April 1, 1982, the Company acquired 100% ownership of Novaco Limited. This acquisition has the effect of reducing the Company's working capital by \$287,657 as outlined below:		
Working capital derived from		
Assumption of fund equity		<u>\$ 393,896</u>
Working capital applied to		
Assumption of fund assets		484,941
Purchase of plant and equipment		12,196
Purchase of other assets		<u>184,416</u>
		681,553
Decrease in working capital		<u>\$ (287,657)</u>
17. Commitments		
a) The Company has entered into a consortium agreement with the objective of defining economic and technical parameters for a "Coal to Synfuels" plant in Nova Scotia. The research phases of the project are due to be completed by December 31, 1983. Management estimates the financial commitment of the Company during the completion of the research phases should not exceed \$300,000. The Company has funded \$300,000 on the Synfuel project up to March 31, 1983.	calls for payments of \$98,758 each year until the expiration of the lease.	
b) The Company has entered into an agreement to lease its current premises until March 31, 1986. The agreement	The Company has also entered into an agreement to sublease a portion of its premises for a three year period ending August 31, 1985. The agreement calls for payments of \$25,000 the first year, \$26,000 the second year and \$27,000 the third year.	
	During the year, the Company also subleased a portion of its premises to Scotian Shelf Developments Limited who paid \$35,876 to the Company. The sublease was terminated October 31, 1982.	



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

- c) On April 1, 1982, the Company, through its subsidiary Nova Scotia Resources (Ventures) Limited, entered into an agreement whereby it acquired a 20% working interest in the petroleum and natural gas licenses held by Hudson's Bay Oil and Gas Company Limited and Inco Energy Resources Limited in the East Sable Block of the Scotian Shelf for \$1. Through the acquisition, the Company became a member of the East Sable Block Joint Venture to be operated by Home Oil. The Company is liable for its portion of future exploration costs on the licenses.
- d) On June 4, 1982, the Company, through its subsidiary Nova Scotia Resources (Ventures) Limited, purchased, from British Columbia Resources Investment Corporation, a 10% working interest in the petroleum and natural gas licenses in the West Sable Block and the East Sable Block of the Scotian Shelf for \$52 million. Through the acquisition, the Company became a member of the Sable Island Joint Venture operated by Mobil Oil Canada. The Company is liable for its portion of future exploration costs on the licenses, effective April 16, 1982.
- e) On September 14, 1982, the Company, through its subsidiary Nova Scotia Resources (Ventures) Limited, entered into a \$10.5 million contractual arrangement with East Coast Energy Ltd. (ECEL) under which the Company sold a 1% working interest in the petroleum and natural gas licenses in the West Sable Block and the East Sable Block of the Scotian Shelf and has undertaken to manage the 1% working interest on ECEL's behalf. This arrangement has reduced the Company's working interest from 10% to 9%.
- As consideration for the 1% working interest, East Coast Energy Ltd. will pay the Company \$8.5 million in instalments to June 1, 1983 and a further \$2 million as a joint venture management fee. Beginning October 1, 1982, the management fee will be paid over twenty years in the following annual payments:
- (i) \$50,000 per year for the first five years;
 - (ii) \$100,000 per year for the next five years;
 - (iii) \$125,000 per year for the remaining ten years.
- Each annual payment shall be divided into twelve equal monthly instalments.
- f) Under an agreement dated July 1, 1973, the Company's subsidiary, Novaco Limited, committed itself to carry on a Coal Recovery Operation, with Thorburn Mining Limited, on coal dump lands owned by the Province of Nova Scotia and wash plant lands, under lease to Thorburn Mining Limited. Active coal recovery operations ceased during the year. Site reclamation activities began during the year and continued beyond the year end.



NOVA SCOTIA RESOURCES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1983

18. Contingencies

- a) With regard to the Company's purchase from British Columbia Resources Investment Corporation, it has been asserted by Petro Canada that the Company is responsible for payment of a 25% portion of a \$4 million shortfall relating to the earning obligations of Petro Canada under an agreement with Mobil Oil Canada (the "West Sable Agreement"). It is management's opinion that the Company is not liable for any portion of the shortfall and accordingly has made no provision for any liability in respect of this matter.
- b) The Company has received an account from British Columbia Resources Investment Corporation (BCRIC) relating to exploration costs charged to BCRIC. As outlined in Note 17(d), effective April 16, 1982 the Company is liable for exploration costs incurred on the working interest purchased and BCRIC is of the opinion that a portion of the costs incurred should be allocated to the Company. Presently there is \$400,000 of outstanding charges that have not been resolved. Since the responsibility of the Company for any portion of these charges depends upon such resolution, no liability has been recorded relating to this account.

19. Subsequent events

- a) On May 12, 1983, the Company and Trans Canada Pipelines Limited (TCPL)

announced the formation of a Nova Scotia based company, Sable Gas Systems Limited. Initially, ownership of this new company will be shared equally between TCPL and the Company. Sable Gas Systems Limited will carry out feasibility studies and initial planning for a natural gas pipeline to move anticipated natural gas from the offshore Sable Island area through Nova Scotia and New Brunswick to the United States border.

As part of this arrangement, the Company has entered into an agreement to sublease to TCPL a further portion of its premises for a six month period ending October 31, 1983 for \$3,709 per month.

- b) The Company, through its subsidiary Nova Scotia Resources (Ventures) Limited, has entered into an agreement with East Coast Energy Ltd. (ECEL) in which the Company has agreed that during the period June 1, 1983 to December 31, 1983 it will, if requested by ECEL, repurchase from ECEL up to 0.2353% of the working interest in the East and West Sable Block. The cost for the repurchase of the full 0.2353% interest shall be \$2 million, less an agreed upon compensation payment. If a lesser interest is repurchased then the cost shall be reduced to reflect the reduction in interest.



NOVA SCOTIA RESOURCES LIMITED

Board of Directors

Peter A. Outhit
President & Chief Executive
Officer
Nova Scotia Resources Limited
Halifax, N.S.
Chairman

J. Ewart Blanchard
President, Nova Scotia Research
Foundation Corporation
Dartmouth, N.S.

Richard S. Brookfield
Deputy Minister, Nova Scotia
Department of Finance
Halifax, N.S.

C. Mark Cleary
President
Western Electrics Ltd.
Dartmouth, N.S.

Ronald B. Coleman
President
Robco Resources
Calgary, Alberta

Purdy Crawford, Q.C.
Barrister & Solicitor
Osler, Hoskin and Harcourt
Toronto, Ontario

John J. Laffin
Deputy Minister, Nova Scotia
Department of Mines and Energy
Halifax, N.S.

James D. McNiven
Deputy Minister, Nova Scotia
Department of Development
Halifax, N.S.

Officers

Peter A. Outhit
President & Chief Executive
Officer
Nova Scotia Resources Limited
Halifax, N.S.

Joseph A.F. Macdonald, Q.C.
Secretary
McInnes, Cooper & Robertson
Halifax, N.S.

NOVACO LIMITED

Board of Directors

Joseph P. Shannon
Businessman
Port Hawkesbury, N.S.
Chairman

John C. Smith
President & Chief
Executive Officer
Sydney, N.S.

No. dau Goodman
Businessman
New Glasgow, N.S.

Bernard J. Kirk
Engineer
Dartmouth, N.S.

Peter A. Outhit
President, Nova Scotia
Resources Limited
Halifax, N.S.

John S. Stevens
Engineer
East Bay, N.S.

Malcolm Turner
Engineer
Chester, N.S.

Officers

John C. Smith
President & Chief
Executive Officer
Sydney, N.S.

Carroll James
Secretary-Treasurer
Halifax, N.S.

Nova Scotia Resources Limited

1657 Bedford Row
Post Office Box 2111
Station "M"
Halifax, Nova Scotia
Canada
B3J 3B7



Novaco Limited

3 Elliott Street
Post Office Box 147
Sydney Mines, Nova Scotia
Canada
B1V 1Y3

POOR

QUALITY

ORIGINAL